LEGISLATIVE SERVICES AGENCY

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FISCAL IMPACT STATEMENT

LS 6313 **NOTE PREPARED:** Jan 4, 2008
BILL NUMBER: HB 1018 **BILL AMENDED:**

SUBJECT: Senior Citizen Property Tax Freeze.

FIRST AUTHOR: Rep. Fry **BILL STATUS:** As Introduced
FIRST SPONSOR:

FUNDS AFFECTED: ___ **GENERAL** **IMPACT:** State & Local
X **DEDICATED**
FEDERAL

Summary of Legislation: This bill freezes the property tax liability on the homestead of an individual at least 65 years of age whose annual adjusted gross income does not exceed $30,000. It shifts to property other than homesteads the amount by which taxes are reduced for seniors.

Effective Date: Upon passage.

Explanation of State Expenditures: The state pays Property Tax Replacement Credits (PTRC) in the amount of 60% of school General Fund levies attributable to all property. The state also pays 20% of the portion of operating levies (including the remaining 40% of the school GF levy) that are attributable to real property and non-business personal property. Homestead credits are paid by the state in the amount of 20% of the net property tax due for qualifying funds on owner-occupied residences. PTRC and Homestead credits are paid from the Property Tax Replacement Fund.

The bill first becomes effective for taxes payable in CY 2009. In CY 2009 these payments cannot exceed $2,028.5 M (currently, no limit has been set for CY 2010). Under current law, if the cost of the credits exceeds this limit, PTRC rates for all taxpayers would be proportionately reduced to stay within this limit. In CY 2009, projections indicate that the $2,028.5 spending limit would be exceeded. As a result, under this proposal, there would be no PTRC and Homestead credit savings in CY 2009.

Subject to appropriation and assuming full funding of these payments in CY 2010, state PTRC and Homestead payments would be reduced. The state is expected to save approximately $14.3 M in CY 2010. In FY 2010 the savings would be approximately $7.2 M.

Explanation of State Revenues:

Explanation of Local Expenditures: Forty-nine counties in 2007 provided additional Homestead credits that are paid with proceeds from a combination of county option taxes (COIT) and county economic development income taxes (CEDIT). Local Homestead credits in CY2009 are expected to decrease by approximately $4.3 M, and by $5 M in CY 2010. COIT proceeds that are not used for county Homestead credits are distributed to civil taxing units as certified shares. CEDIT proceeds that are the result of the additional rate allowed for homestead credits may only be used for homestead credits.

Explanation of Local Revenues: Under current law, persons 65 or over (senior citizens) or their surviving spouses may receive an assessed value (AV) deduction on their real property or mobile home residence equal to one-half the assessed value of the property up to $12,480. In order to qualify, the assessed value of the property may not exceed $182,430 and the adjusted gross income of the taxpayer may not exceed $25,000.

For taxes payable in CY 2009 and after, this bill freezes property taxes for all senior citizens whose adjusted gross income does not exceed $30,000 at the minimum of what they paid on their homesteads in 2006, 2007 and 2008. There is no AV limit. To qualify for this provision, eligible senior citizens must submit a certified statement each year to the county auditor by June 11 of the year before the first year for which they wish to receive the credit. The proposal fixes the base year at CY 2008 if an individual was 65 before 2008, or the calendar year in which the individual becomes 65 if he does so after 2008. If, after 2008, the assessed value of the property increases or decreases because of some physical change to the property, the new tax liability will be the taxes payable in 2008 adjusted by the taxes directly attributable to the change in the assessed value. The new base year will be the year the revised tax liability takes effect.

This analysis assumes that all taxpayers who qualify for the aged deduction under current law are taking it and they would also apply for this provision if their taxes under this provision would be lower. It also assumes that all the potentially additional taxpayers covered under this proposal would claim all applicable benefits.

Estimates derived from income tax data and parcel-level data indicate that this proposal would enable approximately 182,000 senior citizens and surviving spouses to qualify for this provision. In CY 2009 they would pay approximately $93 M less in taxes for an average net tax reduction of $512 per taxpayer; in CY 2010 they would pay approximately $111.5 M less in taxes for an average net tax reduction of $613 per taxpayer.

This reduction in the property taxes for senior citizens will cause a shift of the property tax burden to all other taxpayers who do not own homesteads in the form of an increase in the statewide average gross tax rate of about $0.215 in CY 2009, and $0.224 in CY 2010. This translates to a property tax shift of $93 M to all non-homestead taxpayers in CY 2009 and $111.4 M in CY 2010. Total revenues would remain unchanged.

State Agencies Affected: Department of Local Government Finance.

Local Agencies Affected: County Auditors.

Information Sources: OFMA Income Tax Database, OFMA Property Tax Database, U.S. Census Bureau.

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